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## Japan

## HRI Food Service Sector

## Report

## 2005

**Approved by:**

Mark Dries, Director  
Agricultural Trade Office

**Prepared by:**

Kevin Sage-EL, Deputy Director, Alex Otsuka, Food Service Marketing Specialist and Market Makers, Inc.

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**Report Highlights:**

This is an updated guide to Japan's nearly \$245 billion HRI Food Service market. The HRI industry is continuing to make adjustments since the decline of the bubble economy and nearly a decade of recession. Today, this thriving industry increasingly offers international cuisines throughout the market place. Consequently, competition is intense and the sophisticated Japanese consumer generally demands high quality food products in their meals. U.S. suppliers are well positioned to compete in many product categories provided they are willing to adjust to changing market demands.

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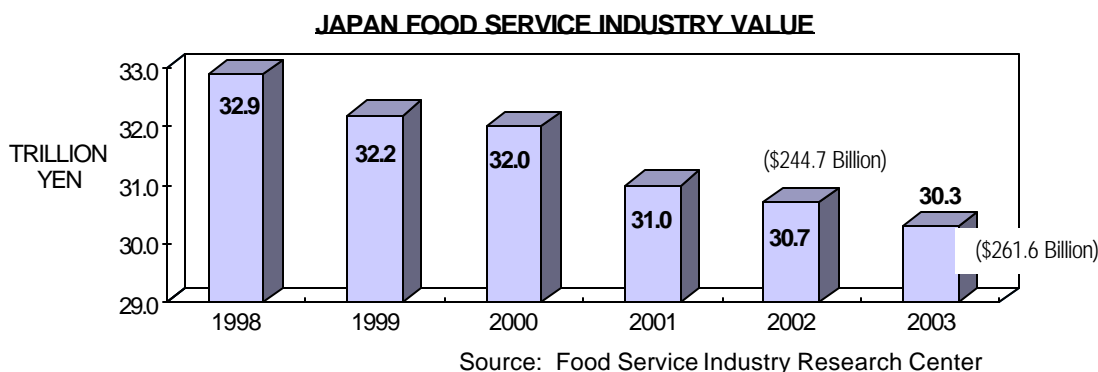
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## SECTION I. MARKET SUMMARY

The Japanese Hotel, Restaurant, Institutional (HRI) Food Service Sector was valued at ¥30.3 trillion in 2003, down slightly from 2002 at ¥30.7 trillion. However, due to a weak dollar in 2003, the equivalents are \$261.6 billion in 2003 and \$244.7 billion in 2002, at the respective exchange rates of \$1=¥115.7 and 1\$ = ¥125.6. After growing steadily during most the 1990's, the total value of the HRI food service sector in Japan has declined since 1998 when it peaked at Yen ¥32.9 trillion.



The principal reasons for the decline in the value of the food service sector are attributed to the following:

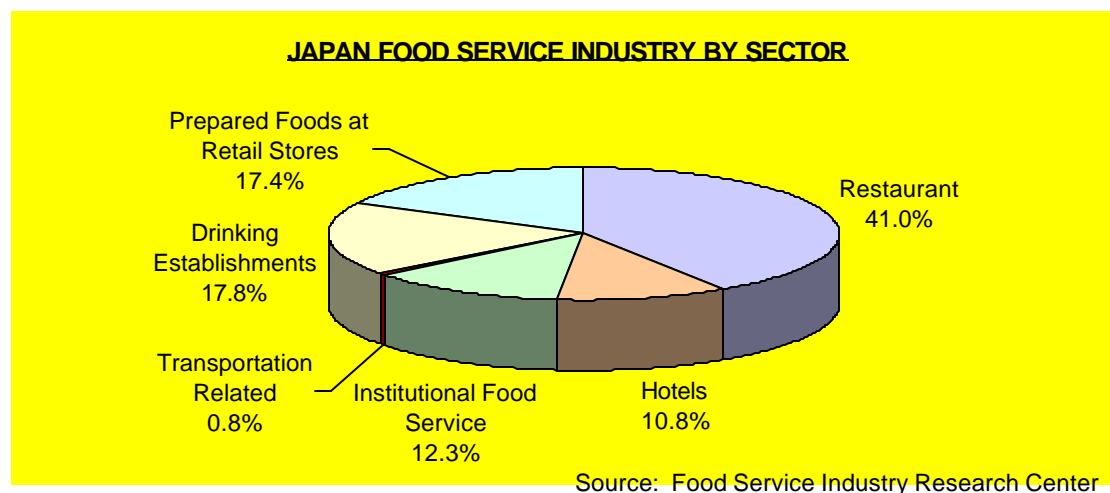
1. Reduced spending by individuals on dining out due to unfavorable macro-economic trends, including higher unemployment, reduced disposable income, and economic uncertainty.
2. Decreased corporate spending on business entertainment, banquets and receptions.

Statistics used in this report are primarily expressed in yen, since year-to-year fluctuations in the exchange rate distort the reading of trends. However, a dollar figure will be provided for the latest year's figures. Exchange rates by year are: 1998 - ¥131.4/\$; 1999 - ¥114.0/\$; 2000 - ¥107.4/\$; 2001 - ¥121.0/\$; 2002 - ¥125.6/\$; 2003 - ¥115.7/\$; 2004 - ¥108.19/\$.

Some additional trends occurring within the food service industry reflect the emergence of certain structural trends. For example, during the decline in sales for the food service sector from 1997 to 2003, the top 100 Japanese food service companies have been showing an average 1.9 percent year-on-year rise. The total revenue for the top 100 now account for about 18 percent of the total share of sales in the HRI market. Also, from 1992 to 1998, the number of food service companies decreased by 386,000 but at the same time, the number of outlets increased by 4.1 percent from 2.572 million to 2.677 million shops. These trends are recurring each year and may eventually result in a market with fewer individual outlets in favor of an increased amount of large chains.

The Japanese food service industry as broadly defined has six major segments. Among the five traditional food service establishments, the largest sector is Restaurants (41% valued at \$107.2 billion), followed by Hotels (10.8% valued at \$28.1 billion), Institutional Food Service (12.3% valued at \$32.1 billion), Drinking Establishments (18% valued at \$46.7 billion) and Transportation Related (0.8% valued at \$2.1 billion).

A sixth, separate category that has grown in importance in Japan is “Prepared Foods Sold at Retail Stores”<sup>1</sup> such as convenience stores, supermarkets, and department stores. These foods are ready-to eat, HMR type products (obento lunch boxes eaten at the office are one example) and are classified by the Japan Food Service Association within the Food Service Sector. The value of the “Prepared Food Sold at Retail stores” sector in 2003 was \$45.4 billion, accounting for 17.4% of the total Japanese food service industry.



The value of each of the traditional food service sectors declined during the past five years; the sole exception is the *nakashoku* or “Prepared Foods Sold at Retail Stores” category which has increased each year.

<sup>1</sup> For what is normally referred to in most resource publications used for creating this report as “Prepared Foods Sold at Retail Stores,” is locally known as ‘*nakashoku*’. From this point it will also be referred to as “Delicatessen Foods and/or Bento (lunch box products).”

JAPAN FOOD SERVICE MARKET BY SECTOR BY YEAR								
Sector	1998	1999	2000	2001	2002	2003		% Chg. 1998 to 2002
	(¥ Tril.)	(¥ Tril.)	(¥ Tril.)	(¥ Tril.)	(¥ Tril.)	(¥ Tril.)	(\$ Bil.)	
Restaurants	13.3	12.8	12.9	12.4	12.5	12.4	107.2	-6.77%
Hotels	4.4	4.2	4	3.7	3.6	3.3	28.1	-25.00%
Institutional	3.9	3.9	3.8	3.8	3.8	3.7	32.1	-5.13%
Drinking Establishments	6.6	6.1	6	5.7	5.4	5.4	46.7	-18.18%
Transportation	0.3	0.3	0.3	0.3	0.3	0.2	2.1	-33.33%
Prepared Foods Sold at Retail Stores	4.4	4.9	5	5.1	5.1	5.3	45.4	20.45%
Total	32.9	32.2	32	31	30.7	30.3	261.6	-7.90%

Source: Food Service Industry Research Center

The key factors affecting the food service industry over the past five years can be summarized as follows:

- A deflationary environment highlighted by record unemployment levels, that has caused most individuals to tighten their budget for dining out and that forced food service operators to reduce both menu prices and costs;
- A conscious effort by many corporations to reduce discretionary spending on business meals and receptions which has been a traditional source of income for high-end restaurants, after-hour drinking establishments and banquet facilities at hotels;
- The damaging impact of Severe Acute Respiratory Syndrome (SARS) on Japan's hotel and tourism trade in the summer of 2003, even though the disease was never found in Japan.
- Consumer concerns for food safety, particularly in response to Avian Influenza (AI) and Bovine Spongiform Encephalopathy (BSE), both of which have led to sales declines for many operations serving beef, poultry and egg products.
- A trend by consumers to pursue new tastes and new styles of food when eating out.

The Japanese food service sector has traditionally been very receptive to the use of imported food products. This is due partly to the fact that:

1. Imported food products are often less expensive than domestically produced Japanese equivalents;
2. The food service sector often pioneers new food concepts from abroad, which makes it more receptive to importing the items used in the menu.

While it is impossible to say exactly what percentage of imported food vs. domestic inputs are used for the food service sector as a whole, it is estimated that well over half of all food service menu items involve imported foodstuffs in one form or another. Imported items such as frozen vegetables, frozen potatoes, beef, shrimp, salmon, pork, wine and the like are heavily used by the food service sector.

The United States, China, Australia, Canada, and Thailand are major agricultural exporters to Japan. The total value of U.S. exported agricultural food products to Japan in 2003 was \$11.4 billion or 34% of all Japan agricultural food imports.

Most industry experts believe the Japanese food service sector will return to growth when the economy improves and disposable consumer income increases. Within the food service sector, it is expected that certain segments will continue to do better than others, in particular, the 'Delicatessen and bento lunch box', category, offering consumer convenience as well as new concepts such as ethnic foods which attract customers with their unique new tastes.

Complicating the above outlook is the ban on U.S. beef imports by Japan since December 2003. This ban continues at the time of this report and will likely delay expected rebounds in the food industry as a whole and particularly in the food service industry. A Japan think tank, the UFJ Institute, did a survey in August 2004 on the impact of the ongoing import ban. Its findings showed that losses associated with the ban for the entire food industry amounted to ¥273 billion (\$2.5 billion). The impact on the food service industry is calculated to be ¥128.8 billion (\$1.2 billion). Generally, the high costs of substitutions for imported American beef, including imports from Australia are not passed on to consumers. Consequently, most of the burden is internalized within the industry.

A brief summary of Advantages and Challenges for U.S. food exporters targeting the Japanese food service sector appears below:

Advantages	Challenges
The success of U.S. fast food and restaurants chain concepts help introduce American style food inputs into the general diet.	Many consumers view American food culture as less attractive than European or Japanese counterparts.
U.S. food producers have a positive image for safety compared to many Asian competitors, especially among the trade.	Most imported food products are viewed by some consumers as less safe than domestically produced Japanese food products.
The U.S. has a reputation and history as reliable supplier of food (both availability and delivery).	The quality and reliability of Asian exporting countries has been growing as the distribution infrastructure and quality assurance (QA) procedures have improved.
The U.S. has a wide variety of food products, including fresh & further processed.	Japanese buyers are sourcing from all over the world rather than from only a few countries.
High Japanese farming costs and a weak dollar make imported food products attractive.	The perception of U.S. price competitiveness and quality has declined vis-à-vis other exporting countries.
U.S. is a source of advanced food processing technology.	Japanese government policies relating to food safety are increasingly disrupting smooth flow of trade for items such as beef (BSE) and poultry & egg (Avian Influenza).

## SECTION II. ROAD MAP FOR MARKET ENTRY

### A. ENTRY STRATEGY

There are no magic formulas for new-to-market exporters to enter the Japanese food service market. Strategies will vary depending on the type of food product being introduced and the current competitive environment. However, there are some basic procedures that new-to-market exporters are recommended to follow when considering the Japanese food service market for the first time.

#### Market Access

One of the fundamental first steps is to determine the market access for your product. In particular this means:

1. Determine if your product category can currently be imported into Japan. Due to food safety concerns the Japanese government has become increasingly strict in allowing food products into Japan. For example, poultry products have faced

multiple bans due to avian influenza outbreaks. Sources of information include freight forwarders, traders, and the U.S. Embassy Agricultural Affairs Office.

2. Determine the import classification and tariff rate for your product. Some product categories such as those containing dairy product, are still highly protected by the Japanese government and face either prohibitively high tariff or quota barriers. It is important to know in advance if this is the case to prevent time and energy being dedicated to products that will not ultimately be price competitive. Again freight forwarders and traders can be helpful in determining into what category your product falls.
3. Determine whether your product meets Japanese regulations for food ingredients. If the product contains prohibited ingredients it will have to be reformulated before it can be imported into Japan. In some cases this may be difficult for U.S. exporters due to volume constraints or because the ingredient is a key element of the formulation. By ascertaining this in advance U.S. exporters can save themselves much frustration later if it is difficult to reformulate. Sources for this information include:

USDA/FAS GAIN Report, Number JA4063 “Japan Food and Agricultural Import Regulations and Standards 2004”(<http://www.fas.usda.gov/gainfiles/200408/146107089.doc>). Freight forwarders can also be helpful in determining ingredient acceptability.

A. Competitive Analysis

Once it is established that the product can be physically exported into Japan it is important to establish whether the product will be accepted from a competitive standpoint. This entails doing at least a preliminary analysis of the market to determine:

- What is the size of the opportunity for the type of product?
- Who are the key customer targets for the products?
- What is the current pricing of similar types of products?
- Can the product be cost effectively introduced?
- What are the key points of differentiation for the product compared to others?
- In what form and what kind of packaging is the competitor’s products sold? Will customers expect the same?

To do this analysis it is helpful to take some combination of the following steps:

1. Visit Japan to research in person the customers your type of product is sold to and see how the product is marketed.
2. Utilize resources such as U.S. Foreign Agricultural Service, state agricultural offices, JETRO, State Regional Trade Groups (SRTGs<sup>2</sup>) and the local U.S. Agricultural Trade Office (ATO) to obtain information about the market relevant to your product.

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<sup>2</sup> See [FASonline](#) or <http://www.fas.usda.gov/agexport/psinfo.html> for more about SRTGs.



3. Talk with freight forwarders and Japanese importers that handle your category of products.
4. If possible, meet with potential customers to determine the kinds of needs they have and their current sources for your products.

### **Comparative Advantage of the Products**

To succeed in entering the Japanese market, it will be important to define the comparative advantage of your products versus the competition. Potential customers in Japan will have to perceive merit in using your products. The most common merits are:

1. Offering price savings that will encourage the customer to give your product a trial.
2. Offering a product or form of product that is new to the Japanese market. Every year there are new items that become popular in Japan that did not exist before. Recent examples include tortillas for wrap sandwiches, bagels, flavored coffees, gourmet style soft cookies and scones, to name a few.
3. Offering a more convenient form of the product that makes it easier for food service operators to use. This may include a new technology for packaging that makes the product easier to prepare or a new form of the product that offers advantages in terms of labor cost, preparation time or efficiency.
4. Offering a high quality product. Food service operators are always interested in products that offer better quality in one form or another. For example, it may be that your product has a demonstrably better track record than competitors on safety issues. These points of difference are worth promoting.

### **Receptivity of the Distribution Trade**

It is important for new-to-market exporters to understand how the distribution system works and to identify potential partners or distributors. Such partners or distributors can offer invaluable advice on issues related to the product, its positioning, packaging, labeling, and custom clearance procedures. There are numerous ways to identify these partners. Some suggestions include:

1. Ask the ATO and co-operator groups for a list of importers for your category of products.
2. Attend trade shows such as Foodex to meet potential partners and obtain leads.
3. If visiting Japan, discuss potential importers and distributors with freight forwarders, and if meeting any customers, enquire as to their preferred distribution channel. Many times customers will have their own preferred channels which they use for imported products.

It is important to obtain a reliable on-site partner or importer if you expect to do long term business in Japan and you do not plan to have your own in-country office. Some things to look for include:

1. Does the partner/importer represent other imported products?
2. Do they have a favorable reputation in the marketplace?
3. Do they have the capability of communicating daily with you in English?
4. Do they have an understanding of import procedures for your type of food product?

### **Ability or Willingness to Meet Market Requirements**

To be successful, it is very important for the new-to-market exporter to be willing to make changes to the product if necessary to meet market expectations in terms of service, quality, and price. Some basic suggestions include:

1. Make sure you are willing to re-formulate the product if necessary to meet relevant Japanese Food Sanitation Laws and Regulations.
2. Be willing to adjust the product or packaging to meet Japanese taste profiles and market expectations. For example, many Japanese operators prefer smaller package sizes due to lack of space to store items.
3. Provide samples on a timely basis, but only upon request of a client/importer.
4. Ensure that all documentation necessary to clear customs/quarantine procedures is provided in proper form.
5. Reply to requests for information in a timely manner, within at least 48 hours, preferably less.
6. Work closely with your partner or importer to prepare sales materials in Japanese.
7. Be patient. Most Japanese food service operators will start with only a small order in order to test the potential supplier. This is especially true for new-to-market suppliers where the risk of something going wrong initially (clearing customs, wrong documentation, wrong labeling, etc.) is the highest.
8. Japanese food service operators are looking for suppliers who can provide consistent high quality product without defects or foreign materials, and who are reliable partners in terms of both delivery and safety issues. To help cement relations, it is strongly recommended to have face-to-face meetings at least once per year with your customers.

### **B. MARKET STRUCTURE**

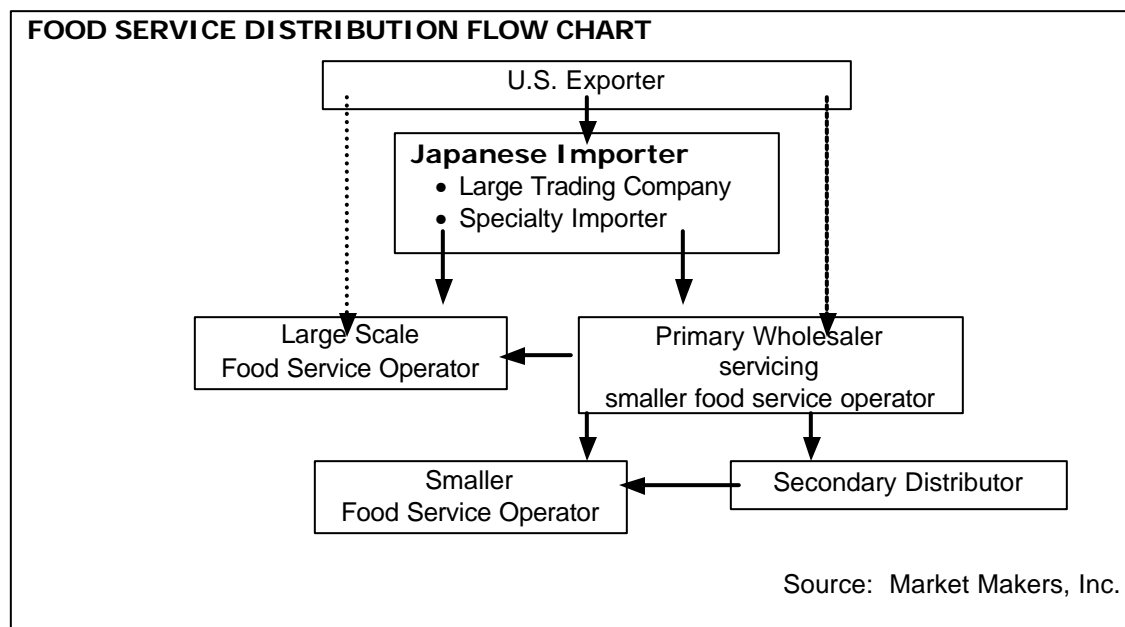
Despite a rapidly consolidating distribution channel, most imported food products still pass through trading companies. The large general trading companies such as Mitsubishi, Mitsui, and Itochu, have divisions specializing in a wide variety of imported food products while small importers tend to specialize in a limited line of items. Trading companies function as legal importers of the products and serve a variety of functions including clearing customs, handling documentation and product testing at point of import, warehousing the product, and financing the inventory. In the past, trading companies would normally sell the product to first line wholesalers

who in turn would sell to secondary wholesalers and even to third line distributors before the product finally reached the food service operator.

This pattern has changed significantly in the past decade, particularly for chain food service customers who have substantial buying power. In order to reduce food costs, most large food service operators directly take possession of the product or thru designated distribution centers rather than use wholesalers (some food service operators import product directly but the majority still use trading companies). The deflationary environment of the past several years, which has intensified price competition among food service chains, has accelerated the trend to eliminate middlemen.

In order to survive in an increasingly competitive marketplace, wholesalers are being forced to consolidate. Smaller wholesalers are either disappearing or being bought by larger ones. In order to add value, most large wholesalers own their own distribution trucks. Wholesalers now focus on carrying broad product lines that can efficiently service small food service operators or small chains with one-stop service. Some wholesalers are now also beginning to import products directly to reduce costs further.

A diagram of the flow of product from the U.S. exporter follows:



A discussion of some of the key trends in the HRI industry that U.S. exporters should be aware of follows:

#### A. Price Competition:

The deflationary environment of the 1990's, coupled with record high post-war unemployment levels, caused many food service chains to lower menu prices in an effort to attract customers. McDonald's Japan, for example, introduced value meal sets and half price hamburgers, reducing the price of a hamburger to 1970's levels. In order to compete many other fast food and family restaurants took similar approaches. Hotels, which traditionally have significant banqueting business from corporate functions and weddings, saw their sales decline as entertainment budgets were reduced. To compete, they also introduced lower cost menus. The impact on food manufacturers has been severe pressure on price margins as food service operators have sought to cushion menu price declines with lower food costs and price declines from suppliers. For U.S. exporters this represents an opportunity for those that offer attractive value in addition to cost savings from higher value products.

#### B. New Tastes From Abroad:

The variety of menus available in Japan continues to expand. Partly due to the large number of Japanese traveling abroad every year, foods from countries such as Southeast Asia, Europe, Australia and the Americas are becoming increasingly popular. Japanese consumers are increasingly interested in trying new tastes and experiencing new kinds of foods. Examples of this include Monsoon Café, a casual dining restaurant chain featuring South East Asian dishes, and Starbucks Coffee, which successfully launched many new styles and flavors of coffees as well as side menus such as scones.

The interest in new food concepts opens the door to food exporters to introduce new concepts.

C. Theme Park Restaurants:

A recent trend has been the increasing popularity of theme park restaurants. This includes restaurants at major new parks, which have opened in the past few years, including Disney Sea, and Universal Studio Japan, as well as at other locations such as Tokyo Dome.

These theme restaurants often focus on foods from abroad and offer opportunities for U.S. exporters to test their products. Disney Resorts and Universal Studio Japan draw an estimated 30-40 million visitors a year. Food buyers there are always looking for original and unique new products associated with the U.S. (for example, smoked turkey drumsticks and caramel popcorn are two popular items at Disneyland).

D. Updating of Traditional Japanese Menus:

In order to compete with new tastes from abroad, Japanese food service operators are striving to introduce new ideas and formats using traditional Japanese foods in new formats, flavors or combinations. Examples include new bite-sized gyoza in a variety of non-traditional flavors, and sushi bars featuring revolving self-serve counter formats.

E. Healthy Foods:

Japanese consumers are increasingly interested in foods that are perceived as healthy. This trend takes a variety of forms. For example, fast food chains are introducing salad menus. Family restaurant chains are including nutritional information on the menu, such as calories per serving.

Some restaurants are featuring organic products as a point of difference. In addition, the slow food movement has slowly gained awareness in Japan.

U.S. exporters that have products that fit into the “healthy” category will have opportunities as this sector grows.

F. Buffet Style:

As part of the effort to add value and reduce costs, many food operators have introduced buffet style or limited set menu options to their menus, especially for lunchtime service. This is a relatively new phenomenon in Japan. This can be seen at many hotels as well as more traditional restaurants.

G. HMR Prepared Foods:

As previously discussed, the area of sharpest growth in the food industry has been ready-to-eat products that can be purchased at retail shops. For example, many consumers purchase take-out lunches at convenience stores or similar retail shops that can be eaten quickly at the office or elsewhere. Vendors of these foods have steadily increased the freshness, quality, and variety of the foods they offer, providing a more attractive menu selection to consumers. U.S. exporters that provide the kinds of products that would fit lunchbox-type or HMR items should consider approaching the assemblers of these types of foods.

H. Further Processed Foods:

Food service operators are increasingly relying on further processed foods rather than raw components. The reasons for this include: 1) help ensure consistency of menus throughout the operators’ outlets, 2) speed up the time it takes to prepare and serve the food, 3) increase food safety since less handling and cross contamination opportunities exist and 4) improve overall costs since less labor is necessary for food preparation. Since the U.S. is a leader in the development of further processed foods, the trend toward further processed foods represents an opportunity for U.S. exporters.

## I. Food Safety:

The importance and awareness of food safety has risen sharply in consumers' minds over the past five years due to a series of high visibility food scares and scandals. Deaths from E. coli O-157 outbreaks, sickness from dairy products by Snow Brand, the BSE mad cow occurrences in Japan and North America, and world wide outbreaks of avian influenza have sensitized consumers to the issues of food safety. As a result, food service operators have become much more stringent in demanding strict procedures and systems for food safety from their suppliers. This includes detailed documentation from suppliers regarding QA systems and procedures at the production site, documentation relating to all ingredients used by the supplier including country of origin, and certification that the products adhere to Japanese regulatory requirements. Information relating to allergens is also required. Many chain operators will not consider buying from a new supplier until all the documentation is provided and an on-site inspection of the production facilities is conducted to verify the standards of the supplier.

In addition, food service operators have become much more demanding regarding quick and accurate responses to any product quality complaints to ensure steps are taken to prevent re-occurrences. Suppliers who do not measure up to the expectations of the food service operator for food safety are often replaced. The experience of the FAS Offices in Japan, is that having a quick response procedure in place to address food safety or product quality complaints can result in minimized disruption to trade.

## J. GMO:

Food service operators in Japan normally require GMO free food products from suppliers. Japanese consumers have not accepted GMO products as a whole though they are legal in Japan. A labeling law governs the identification of GMO ingredients on consumer packaging (See GAIN report JA2010 and the Japan Ministry of Agriculture's website: [http://www.maff.go.jp/soshiki/syokuhin/hinshitu/organic/eng\\_yuki\\_gmo.pdf](http://www.maff.go.jp/soshiki/syokuhin/hinshitu/organic/eng_yuki_gmo.pdf) ).

## C. SUB-SECTOR PROFILES

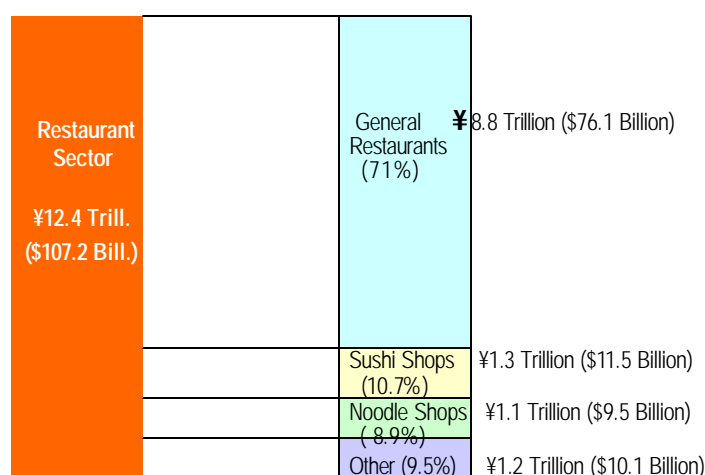
A detailed discussion of the various sub-sectors of the HRI food service industry follows.

### Restaurant Sector

The restaurant sector is the largest of the HRI food service segments. Restaurant sales in 2003 were ¥12.4 trillion equivalent to \$107.2 billion. This represents 41% of total food service industry sales. The restaurant sector includes a wide variety of types of operators, ranging from American-style fast food chains to more traditional family owned single outlet restaurants.

The restaurant sector is divided four major sub-segments. A chart diagramming this segmentation follows:

## JAPANESE RESTAURANT SECTOR - 2003



### A. General Restaurants

General restaurants are categorized by the Ministry of Economy, Trade & Industry into five categories: non-specialized restaurants, Japanese restaurants, Western Restaurants, Chinese Restaurants, and Meat/Other Asian.

The largest numbers of outlets are non-specialized restaurants, followed by Chinese, Japanese, and Western.

NUMBER OF RESTAURANT OUTLETS BY TYPE OF GENERAL RESTAURANT			
	# of Outlets		
Type of Restaurants	2001 *	1999	1996
Non-Specialized	80,511	82,034	87,129
Chinese	62,990	61,727	61,817
Japanese	42,176	39,039	38,662
Western	30,422	31,523	29,871
Meat/Other Asian	28,143	24,326	22,850
Total	244,242	238,649	240,329
Source: Ministry of Economy, Trade & Industry			
* The latest year for which census data has been published.			

The category with the greatest opportunity for most U.S. food exporters is Western restaurants. Western restaurants are composed of family restaurants which serve many Western dishes as well as restaurants specializing in country-specific cuisine such as French, Italian, and Mexican. As a result the menu relies heavily on imported food products to provide authenticity as well as taste. Large family restaurants chains such as Skylark, Royal Host, Denny's, Coco's, Tony Roma's and Sizzler's are major users of imported U.S. foods including such items as frozen potatoes, frozen vegetables and beef.



In recent years, new American-style concepts have opened in Japan, such as TGIF and Outback Steakhouse and Bubba Gump Shrimp Co. These companies use imported foods on their menu extensively.

French restaurants have traditionally been popular in Japan and more recently Italian restaurants have also surged in popularity. Mexican restaurants, which are still few in number, are slowly growing in popularity and provide opportunities for U.S. exporters for items such as tortillas, frozen guacamole, and related Tex-Mex foods. Food service chains that come to Japan from the U.S. are perfect targets for U.S. exporters who also sell those food product concepts in the U.S.

**B. *Sushi Restaurants:***

Japan is famous for sushi, which now is increasingly becoming popular around the world. Sushi relies heavily on seafood and rice as the core menu. Japan is the world's largest importer of seafood products and a substantial portion of fish exports end up in sushi form. This includes tuna, scallops, sea urchin, salmon eggs, yellow fin, salmon, crab and shrimp. Most seafood imports pass through wholesale markets such as Tsukiji Fish Market in Tokyo before being delivered to sushi shops and makers throughout Japan. The U.S. is a major exporter of salmon, salmon eggs, and sea urchin used by sushi operators.

The value of the sushi food service segment was estimated at ¥1.33 trillion in 2003, equal to \$11.5 billion. In 2001, the most recent census year, a total of 39,539 sushi restaurants were reported, a slight decline from the prior census.

**C. *Noodle Shops:***

Noodles, served either hot in steaming water, or cold on a dish, are one of the most popular foods eaten outside of the home in Japan.

In 2003, the value of the soba/udon food service segment was estimated at ¥1.1 trillion or \$9.5 billion. There were estimated 35,106 soba/udon shops in 2001, many of them single proprietorship shops.

Noodles consumed outside of the home are frequently ranked as the most popular lunch item by consumers because they are both quick to serve and eat, and quite inexpensive. A typical soba set will cost only ¥500 - ¥700. However, more recent intensified price competition has resulted in more inexpensive soba set meals at ¥390. It is common for the Japanese 'business man' to down a bowl of noodles within minutes during lunch.

Noodles are usually produced in Japan using imported wheat flour.

Opportunities for U.S. exporters are principally the ingredients used as toppings for noodles. This includes items such as pork slices, and cut corn.

Since many noodle shops are individual outlets rather than large chains, U.S. exporters' strategy for selling toppings must rely on major food service wholesalers who supply the shops.

### Other Restaurant Types

The Food Service Research Center categorizes a number of special food service concepts into its "All Other" category. These include:

- Hamburger Chains
- Fried Chicken Restaurants
- Pizza Shops
- Donuts and Ice Cream Shops
- Okonomiyaki

A brief description of those that are of particular interest to the U.S. exporter follows:

#### 1. Hamburger Chains:

The number one food service operator in Japan is McDonald Japan, which opened in 1972 and now has 3,773 units nationwide. The hamburger fast food concept has been one of the most visible and successful segments over the past 30 years. A list of the top five hamburger chains includes:

	<u># Units</u>
McDonald's Japan	3,773
Mos Foods	1,476
Lotteria	637
Freshness Burger	178
First Kitchen	123

By providing reasonably priced, fast and clean service, the hamburger chain concept has captured a significant share of the youth and family dining out budget.

Because the hamburger chain menu uses concepts originating in the U.S., they are ideal targets for U.S. exporters. For example, McDonald's Japan has long imported many of its food items from the U.S. including frozen potatoes, pork patties, hot dogs, and bagels. Hamburger chain sales declined in 2002 and 2003 as a result of BSE concerns in Japan but are slowly returning to previous levels.

#### 2. Pizza Restaurants

The pizza industry has been a bright spot of growth in Japan over the past decade. Fuelled by the launch of Domino's Pizza in the late 1980's, pizza delivery chains have successfully carved out a niche in the food service market in Japan with their promise of rapid delivery. A partial list of some of the top pizza chains includes:

	<u># Units</u>
Pizza La	589
Pizza Hut	329

Strawberry Cones	190
Domino's	165
Pizza California	144
Pizza Station	37
Shakey's	26

Pizza restaurants offer a wide variety of choices, many tailored specifically to Japan. In addition to traditional toppings such as pepperoni and sausage, pizzas in Japan feature toppings such as eggplant, asparagus, tuna, garlic, potatoes, pineapple and chicken. In addition to sourcing toppings from abroad, pizza chains also source crusts either in dough form or finished crust from abroad.

### 3. Fried Chicken Restaurants

KFC Japan dominates the fried chicken restaurant market with over 1,100 units nationwide. However, due to KFC Japan's policy of promoting domestic Japanese chicken, the opportunities for U.S. exporters are limited to non-chicken menu items such as fried potatoes.

A list of the top 50 restaurant chains in Japan follows:

TOP 50 RESTAURANT COMPANY PROFILE					
Rank	Company Name	Sales (\$ Mil.)	Outlet Name, Type & # of Outlets	Location	Principal Purchasing Agents
1.	McDonald's Japan	3,342	McDonald's, Fast Foods 3,773	Nationwide	Direct Import
2.	Skylark	2,428	Skylark, Family Style Gusto, Family Style 2,450	Nationwide	Importers Direct
3.	Duskin	1,124	Mr. Donuts, Donuts 1,319	Nationwide	Direct Importers
4.	Kentucky Fried Chicken Japan	1,101	KFC, Fast Food, 1,188 Pizza Hut, Pizza, 306	Nationwide	Importers Direct
5.	Royal	1,054	Royal Host, Family Style 501	Nationwide	Importers
6.	Mos Food Service	929	Mos Burger, Fast Food 1,476	Nationwide	Importers Direct
7.	Yoshinoya D&C	867	Yoshinoya, Beef Bowl 992	Nationwide	Importers Direct
8.	Reins International	840	Gyukaku, Korean BBQ Doma Doma, Pub/Izakaya 1,188	Nationwide	Importers Direct
9.	Denny's Japan	827	Denny's, Family Style 578	Nationwide	Importers Direct
10.	Saizeriya	563	Saizeriya, Italian 673	Nationwide	Importers Direct
11.	Matuya Foods	480	Matsuya, Japanese Fast Food 604	Nationwide	Importers Wholesalers

TOP 50 RESTAURANT COMPANY PROFILE					
Rank	Company Name	Sales (\$ Mil.)	Outlet Name, Type & # of Outlets	Location	Principal Purchasing Agents
12.	Jonathan's & Co.	469	Jonathan's, Family Style/Coffee 363	Nationwide	Importers Direct Wholesalers
13.	Ohsho Food Service	469	Ohsho, Chinese Family Style 457	Nationwide	Importers Wholesalers Direct
14.	Ichibanya	449	Curry House CoCo Curry Fast Food 874	Nationwide	Importers Direct Wholesalers
15.	Aleph	435	Bikkuri Donkey, Hamburger Steak 275	Nationwide	Importers Wholesalers Direct
16.	Kappa Create	424	Kappa Sushi, Sushi Fast Food 206	Nationwide	Importers Wholesalers
17.	Joyful	423	Joyful, Family Style 508	Nationwide	Importers Wholesalers Direct
18.	Japan Restaurant Enterprise	398	Transportation Food Service	Nationwide	Wholesalers Direct
19.	Zensho	389	Sukiya, Beef Bowl Wendy's, Fast Food 490	Nationwide	Importers Direct Wholesalers
20.	Saint Marc	372	Saint Marc, Family Style/Coffee 295	Nationwide	Wholesalers Importers
21.	CoCo's Japan	362	CoCo's, Family Style 350	Nationwide	Importers Wholesalers
22.	Kisoji	354	Kisoji, Shabu-Shabu Meat 174	Nationwide	Importers Direct Wholesalers
23.	Dynac	312	Zenmaru, Sanvalley, Japanese Family Style 241	Nationwide	Importers Direct Wholesalers
24.	Gourmet Kineya	311	Kineya/Sojibo, Noodle 599	Nationwide	Wholesalers Importers Direct
25.	Sunday Sun	304	Sunday Sun, Family Style 358	Nationwide	Wholesalers Importers Direct
26.	Atom	300	Tokubei/Atom, Japanese Family Style, 291	Nationwide	Importers Wholesalers Direct
27.	Sato Restaurant Systems	281	Sato, Japanese Family Style 250	Nationwide	Importers Wholesalers Direct
28.	Tasco System	274	Takadaya, etc., Japanese Family Style, 353	Nationwide	Importers Wholesalers Direct
29.	Tonden	268	Tonden, Japanese Family Style 124	Nationwide	Importers Wholesalers Direct

TOP 50 RESTAURANT COMPANY PROFILE					
Rank	Company Name	Sales (\$ Mil.)	Outlet Name, Type & # of Outlets	Location	Principal Purchasing Agents
30.	Ringer Hut	267	Ringer Hut, Noodle Family Style 1,115	Nationwide	Importers Wholesalers Direct
31.	Akindo Sushiro	166	Akindo/Sushiro, Sushi 113	Kansai	Importers Wholesalers Direct
32.	Prime Link	250	Gyukaku, Susho shop 468	Nationwide	Importers Wholesalers Direct
33.	Anrakutei	248	Anrakutei, Korean BBQ 285	Nationwide	Importers Wholesalers Direct
34.	Edoichi	242	Sutamina Taro, Global Viking Multi Concept 154	Kanto	Importers Wholesalers Direct
35.	Shuho	235	Ramen Tonta, Ramen 433	Nationwide	Wholesalers Importers
36.	Ramala	233	Tofuro, Nihonbashi-tei, Multi Concept 117	Kanto	Wholesalers Importers
37.	Sagami Chain	220	Sagami, Japanese Family Style 195	Nationwide	Wholesalers Importers
38.	Green House Foods	209	Saboten, Tonkatsu Restaurant 462	Nationwide	Wholesalers Importers
39.	Nihon Restaurant System	199	Yomenya Goemon, Multi Concepts 249	Nationwide	Wholesalers Importers
40.	Gennki Sushi	197	Gennki Sushi, Sushi Fast Food 195	Nationwide	Wholesalers Importers
41.	Hanaya Yohei	191	Hanaya Yohei, Japanese Family Style 139	Kanto	Wholesalers Importers
42.	Nakau	189	Nakau, Beef Bowl Fast Food 290	Nationwide	Wholesalers Importers
43.	WDI	186	Capricciosa, Italian Family Style Toni Roma's, Steak House Hard Rock Café 171	Nationwide	Importers Wholesalers Direct
44.	Yakinikuya Sakai	183	Yakinikuya Sakai, Korean Barbeque 203	Nationwide	Importers Wholesalers
45.	Kura Corporation	179	Muten Kura Sushi, Sushi Fast Food 83	Kansai	Importers Wholesalers
46.	Kora	179	Kora Honten, Crab Restaurant Kamado, Pub/Izakaya Karubi Iccho, Korean Barbeque 106	Nationwide	Importers Wholesalers
47.	Miya	176	Miya, Steak House 167	Eastern Japan	Importers Wholesalers
48.	Daiwa Jitsugyo	175	Esquire Club, Night Club Yaruki Chaya, Pub/Izakaya 186	Nationwide	Importers Wholesalers

TOP 50 RESTAURANT COMPANY PROFILE					
Rank	Company Name	Sales (\$ Mil.)	Outlet Name, Type & # of Outlets	Location	Principal Purchasing Agents
49.	Umeno Hana	173	Umeno Hana, etc., Japanese Restaurant 229	Nationwide	Importers Wholesalers
50.	Korakuen	171	Aizuppo, Korakuen, etc., Ramen Noodle Shop 197	Nationwide	Importers Wholesalers

Source: Nikkei Newspaper Research

### Hotel Food Service Sector

The Hotel/Inn sector had food sales worth ¥3.26 trillion in 2003, equivalent to \$28.1 billion. This represents 10.8% of the total food service industry sales.

The Hotel food business has declined the past eight years because of a poor economy, which caused a reduction in guest traffic as well as a reduction in banquet and reception business.

Hotels in Japan have traditionally been a popular venue for corporate receptions and seminars as well as for wedding receptions. The economic squeeze has caused reductions in spending for both corporate and individual functions.

First class hotels have a large variety of on-site restaurants to choose from including Western, Chinese and Japanese restaurants.

Hotels are major users of almost all kinds of foods, particularly imported products. Because they have large professional chef staffs, hotels tend to create many dishes from scratch rather than relying on prepared or further processed foods.

Decision making on what kinds of items to put on the menu is usually made by the executive chefs of each hotel. Because they cater to international travelers, many major hotels regularly feature promotions of different country's cuisines. For the same reason, they are more receptive to imported food.

Most hotels rely on wholesalers to supply their food products, often ordering only a few days in advance of delivery.

Japan also has many small *ryokan* or traditional Japanese style inns, which primarily serve holiday travelers. The menu tends to be limited and feature traditional Japanese dishes. *Ryokans* are a less inviting target for U.S. exporters due to their focus on traditional Japanese foods. A list of the top 15 hotel chains in Japan appears below:

Rank	Company Name	Sales (\$ Mil.)	# of Hotels	Location	Principal Purchasing Agents
1.	Prince Hotels	467	83	Nationwide	Wholesalers
2.	Imperial Hotel	271	3	Tokyo, Osaka	Wholesalers
3.	New Otani hotels	243	29	Nationwide	Wholesalers
4.	Fujita Kanko	201	49	Nationwide	Wholesalers
5.	Keio Plaza	151	49	Tokyo, Sapporo	Wholesalers
6.	Daiichi Hankyu Hotels	150	44	Nationwide	Wholesalers
7.	Resort Trust	140	34	Nationwide	Wholesalers
8.	Mitsui Kanko	126	18	Nationwide	Wholesalers
9.	Royal Hotel (Rihga Royal)	123	14	Nationwide	Wholesalers
10.	Washington Hotel	123	35	Nationwide	Wholesalers
11.	Hotel Keikyu	106	8		Wholesalers
12.	Kokusai Kanko and the Hotel Nagoya Castle	85	1	Nagoya	Wholesalers
13.	Palace Hotel	77	2	Tokyo	Wholesalers
14.	Jyuraku	71	6	Kanto	Wholesalers
15.	ANA Hotels	69	32	Nationwide	Wholesalers

Source: Nikkei Newspaper Research

### Institutional Food Service

The institutional food service sector had sales worth ¥3.7 trillion in 2003, equivalent to \$32.1 Billion. This represented 12.3% of the total food service industry sales.

After peaking in 1998, institutional food service sales have declined slightly, though less than for the food service industry as a whole.

The institutional food service sector is comprised of four segments; business/office cafeterias, school lunch programs, hospitals, and welfare facilities. This might be one segment to see growth as Japan's aging demographic intensifies. Many food service companies are gearing up to service what is called the "silver" market.

Sales by segment in 2003 were as follows:

INSTITUTIONAL FOOD SERVICE SALES			
	2002 Sales		
	¥ Billion	\$ Billion	% Share
Business/Office Cafeterias	1,994	17.2	53.7
School Lunch	473	4.1	12.7
Hospitals	1,005	8.7	27.1
Welfare Facilities	241	2.1	6.5
Total:	3,713	32.1	100.0

Source: Food Service Industry Research Center

## Business/Office Cafeterias

The largest segment of the institutional food service market is business/office cafeterias, with \$17.2 billion in sales in 2003.

Business cafeterias are found primarily in companies with 50 or more employees. They usually serve simple menus and are designed to provide inexpensive food to employees.

Most business cafeterias are run by contract feeders. Due to the emphasis on providing low prices, contract feeders focus on food materials that are inexpensive. Opportunities exist for products such as frozen and canned vegetables, frozen potatoes, ketchups, condiments, and meat.

A list of the top 15 institutional contract feeders in Japan appears below:

Rank	Company Name	Sales (\$ Mil.)	Location	Principal Purchasing Agents
1.	Shidax	1,218	Nationwide	Wholesalers
2.	Nisshin Healthcare Food Service	1,201	Nationwide	Wholesalers
3.	Seiyo Food Systems	570	Nationwide	Wholesalers
4.	AIM Service	553	Nationwide	Wholesalers
5.	Green House	475	Nationwide	Wholesalers
6.	Uokuni Sohonsa	415	Nationwide	Wholesalers
7.	Fuji Sangyo	387	Nationwide	Wholesalers
8.	Mefeos	333	Nationwide	Wholesalers
9.	Nikkoku Trust	277	Nationwide	Wholesalers
10.	Uokuni	162	Kansai	Wholesalers
11.	Ichifuji Food Service	158	Nationwide	Wholesalers
12.	Nihon General	147	Chubu	Wholesalers
13.	Lepast	142	Tokyo	Wholesalers
14.	NEC Ryebeck	115	Tokyo	Wholesalers
15.	Harvest	97	Kanto	Wholesalers

Source: Nikkei Newspaper Research & MMI Research



### SECTION III. COMPETITION

The United States is the largest supplier of agricultural products to Japan with a market share of 34.4%. Total U.S. agricultural exports to Japan were \$11.4 billion in 2003.

Other major suppliers of agricultural products to Japan in 2003 were, in order of size; China (11.8%), Australia (8.2%), Canada (6.4%) and Thailand (5.8%).

A brief discussion of the key competitive situation for major consumer oriented food categories follows: The source of the information is the Japan import statistics provided by Customs.

#### Red Meat

Red meat (beef and pork) has been the largest category of food products exported to Japan. The total value of U.S. red meat exports in 2003 was \$2.8 billion. The U.S. had the largest share of red meat imports at 40% in 2003. Other major exporting countries are Australia (beef) and Denmark (pork).

The food service sector is a major customer for U.S. red meats, particularly beef bowl chains, yakiniku barbecue chains, family restaurants, and steak restaurants. This is due to the attractive price and quality of U.S. red meat. Imported red meat is less expensive than domestic Japanese production and imported red meats accounts for over half of all red meat consumption in Japan. The discovery of a case of BSE in the U.S. in December 2003 led to a ban on U.S. beef products which is still under negotiation at the time of this report. During the ban, exports of U.S. pork products have increased to partially cover beef shortages.

#### Fish and Seafood

The U.S. is the second largest supplier of edible fish and seafood products after China. The value of edible U.S. seafood exports to Japan in 2003 was \$1.3 billion, representing a 10% market share. The U.S. is a major exporter of roe and urchin eggs (\$459 million in 2003), surimi fish paste (\$184 million), salmon (\$112 million) and crab (\$88 million).

The food service market, especially the sushi restaurant segment, is a major customer of U.S. fish products.

#### Dairy Products

The U.S. exported \$90 million worth of dairy products in 2003, after Australia (\$280 million) and New Zealand (\$201 million). Dairy products are still a protected industry in Japan and cheese is the major dairy import.

#### Processed Fruits & Vegetables

The U.S. is the second largest exporter of processed fruits and vegetables to Japan with a 20% share. The value of 2003 exports from the U.S. was \$537 million, second only to China (\$1.2 billion and 44% share). The U.S. has traditionally been a major supplier of frozen vegetables

(potatoes, corns, beans, peas and broccoli) to Japan. The food service sector is a major customer for these products, particularly fast food restaurants, family restaurants and Western restaurants, which value the year-round availability, ease of preparation and inexpensive cost of frozen imports.

### **Poultry**

The U.S. is the fourth largest supplier of poultry to Japan with a 7% share. U.S. exports to Japan were valued at \$110 million in 2003, after Thailand (\$634 million), China (\$545 million) and Brazil (\$265 million).

U.S. market share of poultry exports to Japan has declined the past 3 years due to outbreaks of Avian Influenza in the U.S. that has led to periodic bans of U.S. poultry.

The main target for processed chicken from the U.S. has been the food service sector, in particular fast food chains.

### **Fruit & Vegetable Juice**

The U.S. is the leading exporter of fruit & vegetable juice to Japan, exporting \$152 million in 2003, with a share of 34%. Brazil is the second largest exporter with a share of 22%. The U.S. is a major exporter of orange, grapefruit, and apple juice to Japan. Food service operators are major customers of U.S. juices, particularly hotels, family restaurants, and fast food chains.

### **Fresh Fruit**

The U.S. is a major exporter of fresh fruits to Japan, exporting \$490 million in 2003, with a market share of 34%. While the primary market for most U.S. fresh fruit is the retail sector, fresh fruits can also be found in the hotel segment of the food service industry, and are used in cut-up form as toppings on dessert tarts at cake shops and fancy restaurants.

### **Fresh Vegetables**

The U.S. is the second largest supplier of fresh vegetables to Japan after China. U.S. exports of fresh vegetables were \$148 million in 2003, with a market share of 16%. Broccoli and asparagus are two of the major fresh vegetables exported from the U.S. Due to the seasonality of fresh vegetables, food service operators tend to rely more on frozen vegetables than fresh.

### **Wine and Beer**

The U.S. is the third largest exporter of wine and beer to Japan with a 7% share, behind France (56% share) and Italy (13% share).

The food service market is a major market for wine and beer. Western style wines are found at most hotels, Western restaurants, and increasingly at traditional Japanese restaurants as well. Wine is also carried at most bar and night clubs. Domestic Japanese production of wine is still limited.

In contrast to wine, most beer consumed in Japan is produced by the large Japanese breweries such as Kirin, Asahi and Sapporo. Beer is carried at most restaurants which target adults, as well as beer halls, pubs, nightclubs and bars. In recent years, pubs specializing in beers from around the world have opened in the major cities in Japan, offering imported beers an avenue of sales opportunity.

### Snack Foods

The U.S. is the leading supplier of snack foods to Japan, exporting \$108 million in 2003. U.S. market share among exports was 16%.

Due to ingredient/additive issues, many typical U.S. snack foods are difficult to export to Japan without reformulation.

### Breakfast Cereals and Pancake Mix

The market for breakfast cereals and pancake mix is rather small in Japan. U.S. exports to Japan totaled \$23 million in 2003 with a share of 28%. The major food service customer for U.S. breakfast cereals and pancake mix is the hotel sector.

Product Category	Major Supply Source	Strengths of Key Supply Countries	Advantages and Disadvantages Local Suppliers
Red Meat (fresh/ chilled/frozen)  Net Imports: \$6.6 Billion	1. US. - 40% 2. Denmark -17% 3. Australia - 16%	US is a cost efficient supplier of both beef and pork to Japan. Australia is a cost efficient beef producer. Denmark is a major supplier of quality, low cost pork.	The high cost of feed and raising cattle and swine makes local production very expensive. Local production has the advantage of freshness and stringent production traceability requirements generally supported by consumers.
Fish & Seafood  Net Imports: \$12.5 Billion	1. China - 18% 2. U.S. -10% 3. Russia - 8%	China is the leading low cost supplier of seafood. Russia is the major source crab. The U.S. is the leader in surimi, roe and urchin exports.	Japanese companies fish worldwide for marine resources.
Processed Fruit & Vegetables  Net Imports: \$2.7 Billion	1. China - 44% 2. U.S. - 20% 3. Thailand - 6%	China is a low cost supplier of many vegetables popular in Japan. The U.S. is a major supplier of frozen potatoes, corn, peas, and mixed vegetables	High costs make local production less competitive for further processing.

Poultry  Net Imports: \$1.7 Billion	1. Thailand - 38% 2. China -33% 3. Brazil - 16%	Thailand and China both are low cost producers of further processed chicken. Brazil is the low cost source for raw commodity chicken.	The high cost of local poultry production makes it less attractive to food service operators. Most domestic production goes to the retail market where freshness is valued.
Fruit & Vegetable Juice  Net Imports: \$450 Million	1. U.S. – 34% 2. Brazil – 22%	The U.S. is the leading supplier of price competitive, high quality apple, grapefruit, tomato & orange juice. Brazil is the low cost supplier of orange juice.	Domestic Japanese juice is more expensive than imports
Fresh Fruit  Net Imports: \$1.4 Billion	1. Philippines – 34% 2. U.S. – 34%	The U.S. is the leading supplier of quality, price competitive grapefruits and oranges. The Philippines is a major supplier of bananas, mangos and pineapples.	The consumer desire for freshness benefits Japanese production of mikan, strawberries, peaches, grapes, and apples. Customers rely on imports in off-season periods.
Fresh Vegetables  Net Imports: \$873 Million	1. China – 42% 2. U.S. – 17%	China is the leading supplier of fresh vegetables to Japan due to both competitive price and proximity. Issues of chemical residues have recently slowed imports from China.	Though Japanese vegetables are expensive consumers perceive them as both safer and fresher, and are willing to pay a premium for them.
Wine and Beer  Net Imports: \$1.0 Billion	1. France – 56% 2. Italy 13% 3. U.S. – 7%	France is the leading exporter of wines to Japan, followed by Italy. French and Italian wines have a quality image and imported in both bottled and bulk form.	Japan has little tradition as a wine maker, though this is slowly changing. Most wines are imported.
Snack Foods  Net Imports: \$668 Million	1. U.S. – 16% 2. China – 14% 3. Australia – 9%	The U.S. is the leading supplier of Western-style snack foods (cookies, candies, pretzels, chips). China provides some Japanese-style snack items at a competitive price.	
Breakfast Cereals & Pancake Mix  Net Imports: \$81 Million	1. U.S. – 28% 2. Australia – 11%	U.S. is a major producing country for breakfast cereals & Pancake mix.	The market for breakfast cereals and pancake mix for food service operators is relatively small in Japan.

## SECTION IV. BEST PRODUCTS PROSPECTS

### A. Products Present in the Market Which Have Good Sales Potential

Despite the fact that the Japanese Foodservice sector has not been growing the past several years, it is still a very large market for many U.S. food products and will continue to be so in the future. As the Japanese economy improves, it is expected that the food service sector will also return to a growth mode.

It is important for U.S. exporters to continue to make efforts to cultivate the Japanese food service sector for those items that have established a significant presence over time in the market in order to maintain the sales volume and increase it where possible.

**Pork:** The market for pork has expanded the past three years due to the occurrence of BSE in beef in Japan, and more recently the ban on U.S. beef products due to the discovery of a case of BSE in the U.S. Pork has been added to the menu by many food service operators to offset decline in beef sales. Key targets for pork items include: family restaurants, hotels, fast food chain, tonkatsu (fried pork) shops, yakiniku barbeque shops, Western restaurants, noodle shops, contract feeders, and pizza chains (toppings).

**Beef:** Despite the current ban on U.S. beef exports to Japan, it is expected that the market will open up again in the near future. Japan is the largest market outside the U.S. for American beef and the food service sector is the largest customer for U.S. beef within Japan. Key targets are: family restaurants, steak houses, beef bowl chains, hotels, yakiniku barbeque shops, Western restaurants, and contract feeders.

**Roe and Sea-Urchin:** Japan is a major market for U.S. roe and sea-urchin and should continue to be in the future. Key targets are: sushi shops and sushi takeout shops.

**Frozen Vegetables (Potatoes, Corn, Mixed Vegetables):** The Japanese food service sector is a major customer for frozen vegetables such as potatoes, corn and mixed vegetables. Despite increased competition from New Zealand and China it should remain a strong market for the future. Key targets are: fast food chains, family restaurants, hotels, contract feeders, and Western restaurants.

**Wine:** The wine market continues to grow, particularly the lower price segment. The demand for western wine should increase as traditional Japanese restaurants place it on the menu. Key targets are: hotels, Western restaurants, bars and nightclubs, and for the future, Japanese restaurants.

➤ **School Lunch Programs**

The school lunch sector was valued at ¥473 billion in 2003, equivalent to \$4.1 billion. The school lunch program in Japan is rather difficult to penetrate for most foreign companies since it is overseen by a combination of national and local government bodies, with many layers of decision making. Menus are normally designed at the local level, and products are purchased through wholesalers who supply the schools regularly. The school lunch program is primarily targeted at elementary and junior high school age children.

**B. Hospitals**

Hospital feeding was estimated to total ¥1 trillion in 2003, equal to \$8.7 billion. The hospital feeding market has been flat over the past five years. Hospitals increasingly rely on outside contractors to provide the feeding programs though some have in-house systems. The health care system in Japan is based on a national health insurance program and coverage extends to feeding as well.

Most large hospitals have nutritionists on staff who help develop menus to meet the different requirements of each patient. Because many different kinds of meals are served daily depending on the patients needs, contractors are forced to provide custom order production in small lots.

Meals typically feature traditional Japanese food with which most patients are familiar and comfortable. The custom order nature of the orders as well as the traditional Japanese food taste makes it difficult for exporters to penetrate this segment. On the other hand, U.S. exporters with experience in supplying foods to hospitals in the U.S. may discover some opportunities for specialized products in Japan.

### C. Drinking Establishments

The drinking establishment sector in Japan had sales worth ¥5.4 trillion in 2003, equivalent to \$46.7 billion. Drinking establishments account for 18% of the total food service market in Japan.

Drinking establishments are divided into four major categories in Japan: 1) coffee and tea shops, 2) beer halls and Japanese pubs, 3) bars, cabarets and night clubs, and 4) ryotei (upscale Japanese drinking/entertainment establishments).

DRINKING ESTABLISHMENTS BY TYPE FOR 2002			
Type of Establishment	2003		
	¥ Trillion	\$ Billion	% Share
Coffee/Tea Shops	1.14	9.9	21.1
Beer Halls/Pubs	1.12	9.8	20.9
Bars, Cabarets, Night Clubs	2.75	23.8	51.1
Ryotei	.038	3.2	6.9
Total	5.04	46.7	100.0

Source: Japan Food Service Industry Research Center

Sales of all four segments have decreased since 1998, declining 18% in total between 1998 and 2002.

The main reason for the decline in drinking establishment sales, particularly bars, beer pubs and nightclubs, is the reduction in expense account spending for corporate entertainment. Many drinking establishments have had to reduce prices to maintain customers, while others have gone out of business entirely.

### D. Coffee Shops

Despite the successful introduction of Starbucks Coffee, sales of the coffee shop industry have declined during the past decade, decreasing 17% between 1998 and 2003. Coffee shops were once primarily frequented as meeting places with limited menu selections. Starbucks has revolutionized the coffee shop industry with its take-out coffees, exotic flavors and comfortable atmosphere, which many chain competitors are now imitating. As a result of competition from chain coffee shops such as Starbucks and Doutor, many small single-owner coffee shops have gone out of business. The number of coffee shops decreased from 126,260 in 1991 to 89,933 in 2001 according to the most recent government census data.

The launch of Starbucks has created new opportunities for U.S. exporters for the coffee shop segment, particularly for items such as scones, wrap sandwiches, and gourmet cookies.

### E. Bars, Night Clubs and Beer Halls

Between 1998 and 2003, sales at bars, nightclubs and beer halls declined 19%. The number of establishments declined from 372,299 in 1996 to 346,034 in 2001 according to government census data.

Bars, night clubs, and beer pubs make natural targets for U.S. alcoholic beverage manufacturers. Because many of the establishments are single proprietorships, it is difficult to directly sell to this market. Most sales are through distributors.

TOP 15 DRINKING ESTABLISHMENTS					
Rank	Company Name	Sales (\$ Mil.)	Outlet Name, Type & # of Outlets	Location	Principal Purchasing Agents
1.	Monte Roza	1,145	Hirokiya, Uotami, Wara Wara, Pub/Izakaya 1,106	Nationwide	Direct Wholesalers Importers
2.	Doutor Coffee	749	Doutor, Colorado, Excelsior, Coffee Shop 1,294	Nationwide	Direct Importers
3.	Daisho	634	Shoya, Yaruki Chaya, Beer Halls, Tavern 705	Nationwide	Importers Direct Wholesalers
4.	Yoro no Taki	540	Yoro no Taki Beer Halls, Tavern 1,355	Nationwide	Importers Direct Wholesalers
5.	Starbucks Coffee Japan	510	Starbucks Coffee Coffee Shop 514	Nationwide	Importer Direct
6.	Watami Foods Service	455	Watami, Pub/Izakaya 370	Nationwide	Importers Wholesalers Direct
7.	Colowide	438	Amataro, Pub/Izakaya Sangendo, Pub/Izakaya 337	Nationwide	Wholesalers Importers
8.	Murasaki Honsha	415	Murasaki, Pub/Izakaya 478	Nationwide	Wholesalers Importers
9.	Tsubohachi	363	Tsubohachi, Pub/Izakaya 506	Nationwide	Wholesalers Importers
10.	Marche	313	Suikoden, Hkkenden, Ishinden, Pub/Izakaya 789	Nationwide	Wholesalers Importers
11.	Sapporo Lion	218	Sapporo Lion, Beer Hall 210	Nationwide	Wholesalers Importers Direct
12.	Ten Allied	184	Tengu, Pub/Izakaya 155	Nationwide	Wholesalers Importers Direct
13.	Chimney	168	Chimney, Pub/Izakaya 235	Nationwide	Wholesalers Importers Direct
14.	Kohikan	127	Kohikan, Coffee Shop 411	Nationwide	Wholesalers Importers Director
15.	Sanko Marketing Foods	126	Toho Kenbunroku, Tukino Shizuku, Pub/Izakaya 54	Tokyo, Osaka	Wholesalers Importers Direct

Source: Nikkei Newspaper Research



## F. Prepared Food at Retail Stores

The only segment of the food service industry to show growth during the past six years has been in the increased offerings to consumers for deli and/or bento-lunch box meals, also collectively known as *nakashoku*. This segment has grown from ¥4.40 trillion in 1998 to ¥5.26 trillion in 2003, equivalent to \$45.4 billion. Sales of this segment have grown for several reasons.

1. Consumers are relying more and more on convenient, ready-to-eat prepared foods rather than make from scratch.
2. HMR type foods sold at retail stores such as convenience stores or sushi take-out shops are both less expensive and faster alternatives than restaurant or fast food chains.
3. Prepared food manufacturers have improved both the quality and variety of the products, enhancing their appeal. Prepared foods sold at retail stores now include pasta dishes, salads, noodles, sushi, sandwiches and even fried chicken.

*Nakashoku* meals are sold through a variety of channels, primarily convenience stores, bento lunchbox takeout shops, department stores food sections, and supermarkets. Increasingly much of the production is performed at central off-site facilities, and distributed in finished form to retailers for sale within a 24-hour period. U.S. exporters interested in exploring this business should first study the types of items being sold and seek an introduction to some of the key food processors assembling these products. A list of the top 5 lunchbox retail shops in Japan follows.

TOP 5 TAKEOUT LUNCHBOX SHOPS					
Rank	Company Name	Sales (\$ Mil.)	Outlet Name, Type & # of Outlets	Location	Principal Purchasing Agents
1.	Hokka Hokka Tei Sohonten	1,706	Hokka Hokka Tei, Takeout Bento 3,519	Nationwide	Direct Wholesalers
2.	Honke Kamadoya	1,046	Honke Kamadoya, Takeout Bento 2,570	Nationwide	Direct Importers
3.	Kozosushi Honbu	507	Kozosushi, Sushi Takeout 1,348	Nationwide	Importers Direct
4.	Origin Toshu	349	Origin Bento/Toshu, Takeout Bento 548	Nationwide	Importers Direct
5.	Rock Field	336	RF1, Kobe Croquette, Yugo, 272	Nationwide	Direct Importers

Source: Nikkei Newspaper Research

**SECTION V. POST CONTACT AND FURTHER INFORMATION**

In Japan, the Foreign Agricultural Service has two Agricultural Trade Offices located in Japan.

*In Tokyo:*

ATO Tokyo  
Toshin Tameike Bldg. 8F  
1-1-14 Akasaka Minato-ku, Tokyo 107-0052  
Tel: 81 (3\*) 3505-6050  
Fax: 81 (3\*) 3582-6429

*In Osaka-Kobe:*

ATO Osaka  
American Consulate General  
11-5, Nishitenma 2-chome  
Kita-ku, Osaka 530-8543  
Tel: 81 (6\*) 6315-5904  
Fax: 81 (6\*) 6315-5906

*\*Please add a zero before this number if dialing from within Japan.*

The following homepages and reports can provide useful information to interested exporters.

*Agricultural Trade Office's homepages*

<http://www.atojapan.org> (ATO Tokyo, English)  
<http://www.greatamericanfood.imfo> (ATO Osaka, Japanese)

*Reports from Japan's ATO's, in addition to those from the Agricultural Affairs Office in Japan can be found using the links provided or by searching from the FAS Japan Reports website at:*

<http://www.fas.usda.gov/scripts/attacherep/default.asp>

\*Please visit the Foreign Agricultural Service's website at <http://www.fas.usda.gov/> and then continue on to the above Reports Website for the available updated versions of the following reports:

*Japan Exporters Guide*

This is comprehensive document from the ATO's in Japan containing information useful to exporters and U.S. suppliers, considering the Japan market for the first time.

<http://www.fas.usda.gov/gainfiles/200502/146118914.pdf>

*Food Processing Sector Study*

A detailed look at Japan's food processing sector by ATO Osaka, identifying key trends and leading Japanese manufacturers.

<http://www.fas.usda.gov/gainfiles/200301/145785214.pdf>

*Retail Food Sector Report*

This is a comprehensive report by the ATO's in Japan on the Japanese retail food market detailing the structure, size and areas of growth of this sector, its key industry players and prospects for various U.S. products.

<http://www.fas.usda.gov/gainfiles/200008/30677668.pdf>

*Food and Agricultural Import Regulations and Standards (FAIRS) Report*

The FAIRS report is a comprehensive guide produced by the Agricultural Affairs Office (AAO) of the U.S. Embassy on Japan's food and beverage regulations, standards and requirements for importation.  
<http://www.fas.usda.gov/gainfiles/200308/145985782.pdf>

*Procedures for Importing Foods and Related Products into Japan under the Food Sanitation Law*  
JETRO report summarizing specific technical import procedures for food products.

<http://www.jetro.go.jp/en/market/regulations/pdf/agri2004mar-e.pdf>

*Red Meat Export Requirements for Japan*

USDA Food Safety and Inspection Service (FSIS) summary of red meat export requirements for Japan.

<http://www.fsis.usda.gov/OFO/export/japan.htm>

*The National Organic Program - Export Arrangement with Japan*

USDA / Agricultural Marketing Service useful information on National Organic Program and Export arrangement with Japan. Product & Market Briefs

<http://www.ams.usda.gov/nop/NOP/TradeIssues/Japan.html>

*Japan Wine Market Annual Report from ATO Tokyo*

<http://www.fas.usda.gov/gainfiles/200212/145784927.pdf>

*Pet Food Market Research on the Japanese Market from ATO Osaka*

<http://www.fas.usda.gov/gainfiles/200304/145885127.pdf>

*Japan External Trade Organization (JETRO) Reports*

<http://www.jetro.go.jp/ec/e/market/index.html>

*Food Business Line from ATO Tokyo*

Periodic press translations of timely news articles covering Japan's food market

<http://www.fas.usda.gov/scripts/attacherep/default.asp>